

REPUBLIC OF PALAU

BUSINESS OPPORTUNITIES REPORT

**PREPARED FOR THE UNITED STATES DEPARTMENT OF THE INTERIOR
OFFICE OF INSULAR AFFAIRS**



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The Republic of Palau (Palau), strategically located in the North Pacific Ocean, is within hours from major Asian markets of Japan, China, Korea and Taiwan. As a sovereign nation in “free-association” with the United States (US), Palau is protected by the US, but administers its domestic and foreign affairs. The country, at a critical stage of economic development with annual Compact funds ending in 2009, is positioning itself to expand businesses and create employment to increase income. Major infrastructure projects, the groundwork for economic growth, have been laid out, and opportunities for investments and business partnerships exist.

This report provides an overview of Palau, its economy, investment climate, and its opportunities for partnerships and investments. The expansion of **Tourism, Aquaculture,** and “light” **Manufacturing** are presented as promising growth opportunities for Palau.

As the tourism industry is the largest source of income, Palau seeks to expand this tourism base with diversified products targeting a broad range of tourist markets. The completion of the Compact-funded Babeldaob road brings access to land for development, increased production and better distribution possibilities for tourism businesses and related support businesses. Already reputed as one of the “underwater wonders of the world,” government officials support the development of tourism products to incorporate Palau’s untapped resources: its cultural and historical sites and vast under-developed countryside. Diversified tourism products targeting niche markets in the United States (US) and Asia have the largest potential. The launch of Palau Micronesia Air adding to the current list of six airline companies serving Palau, increases airline access, thus boosting visitor arrivals, and opens opportunities for export development.

As experienced during the Asian economic crisis (1997 to 1998), the events of September 11, and the SARS outbreak, diversified tourist markets alone will not safeguard Palau’s fragile economy from downfalls in the global tourism industry. Development of other industries is necessary to balance the economy from fluctuations in the precarious tourism industry. On the other hand, these industries must not compromise the country’s richest resources, its pristine environment and unique culture. Palau must maintain a fragile balance between economic development and environmental conservation. Studies have determined the expansion of marine aquaculture and light manufacturing will achieve this. Preferential trade terms with the US through the Compact of Free Association (Compact) and its regional trade partners, increased transportation access, and progressive government initiatives, including the establishment of the Ngardmau Free Trade Zone, opens up a wide range of possibilities for commercial partnerships and investments in these industries.

Expanded tourism, marine aquaculture and light manufacturing are viable business opportunities that will provide real returns by creating employment and increasing income for Palau, allowing it to enter a new phase of economic growth and self-sufficiency.

PALAU: Business Opportunities Potential
Key Economic Statistics

Population - July 2004 est.	20,016	Gross Domestic Product (\$M) – 2002/2003	\$123.9
Total Labor Force - 2000	9,607	% Government Revenues	29%
Total Employment	9,383	% Trade	23%
Private Sector	6,500	% Construction	12%
Public Sector	2,745	% Other Services	31%
Other	138	GDP Per Capita (\$) - 2002/2003	\$5,482
Unemployment Rate (%) - 2000	2.3%	Imports (US\$M) - 2002/2003	\$93.7
Currency	US Dollar	Exports (US\$M) – 2002/2003	\$11.9

Sources: Palau Government, CIA 2004 Fact Book, Bank of Hawaii 2003, International Monetary Fund Staff Report 2004

Competitive Advantages

Location	Proximity to Asia
Governance	Politically Stable; Strong ties to the US; Duty-free access to US
Tax System	Low Tax Structure; No corporate tax; Tax incentives
Infrastructure	Well-established and modern Infrastructure
Natural Resources	Rich Tuna Fishery; Diverse Marine Life; Pristine Marine Environment
Culture	Rich Cultural Heritage (historical and cultural sites); Native Arts and Crafts; Ethnic Cuisine

Positive Developments

Government Initiatives	Foreign Investment Reform; Financial Reform; Tax Incentives for Agri-Business Development; Regional Integration; Free Trade Zone
Airline Access	New Palau Airline; Increased Airline Access
Babeldaob Road	Access to historical/cultural sites and natural sites; Access to rich agricultural lands; Access to prime real estate properties

Growth Opportunities

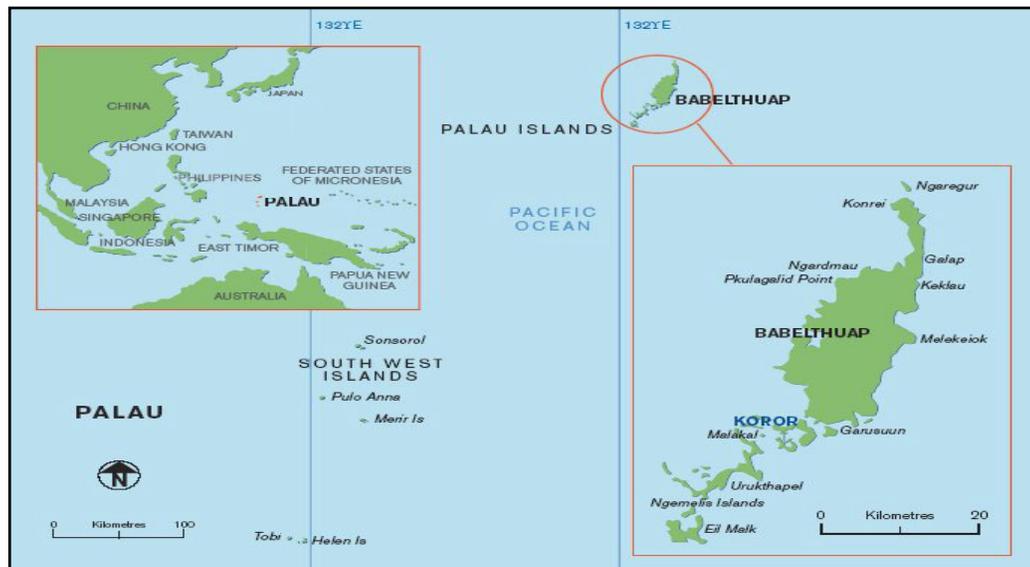
Aquaculture	Aquarium Trade, Seafood Trade
Tourism	Ecotourism Resort Development; Timeshare marketing/sales
Manufacturing	Ngardmau Free Trade Zone; Light Manufacturing

Opportunities for Further Development

Agriculture	Root Crop Exports; Value-added Agriculture Products; Tropical Flowers
Education	Marine research programs
Fisheries	Small-Scale Fish Processing
Infrastructure	Ship Registry; Paper Recycling; Electronic Equipment Recycling
Tourism	US-Chain Hotel Investment/Management/Development
Trade	Quarry equipment; General Merchandise

INTRODUCTION

Located in the North Pacific Ocean, the Republic of Palau (Palau) is an archipelago of more than 300 islands with a total land area of 196 square miles. Spread over 325 miles of the Pacific Ocean and the Philippine Sea, Palau is situated 815 miles southwest of Guam (USA). Only 9 of Palau's 300 some islands are inhabited. The largest island of Babeldaob¹, approximately twenty-miles long and ten-miles wide, is seventy-eight percent of Palau's land area and the second largest landmass in Micronesia after Guam.



Source: Pacific Islands Trade and Investment Commission and Asian Development Bank

Palau's total population is approximately 20,016², with seventy percent of the population residing in the capitol of Koror, the country's commercial and administrative center. Babeldaob, where only a quarter of the population resides, is largely uninhabited and underdeveloped. This is expected to change within the next decade with the scheduled completion of the US-funded Compact Road in 2005-2006, an encircling road network connecting outlying villages in Babeldaob to Koror.

Palau's government is modeled after the United States system, with an executive branch, a bi-cameral legislature and a judiciary branch. The national government is headed by an elected four-year term President and Vice President³, and an appointed cabinet. The legislature, *Olbiil Era Kelulau* (OEK), is comprised of a House of Delegates, with sixteen elected members serving four-year terms, and a Senate, with 14 elected members also

¹ Referred to as *Babelthup* on the map.

² Central Intelligence Agency (2004).

³ Unlike the US, Palau's President and Vice President do not run on the same campaign ticket.

INTRODUCTION

serving four-year terms. Palau is divided into sixteen states⁴, with relative autonomy, each administered by an elected governor and a legislature.⁵

In addition, each state is directed by a hierarchy of traditional chiefs responsible for upholding traditional customs and laws. The highest ranking traditional chiefs from each state serve on a *Council of Chiefs*, established under the Constitution to advise the President on matters concerning traditional customs and laws.

In 1994, Palau entered into the Compact of Free Association (referred to as the Compact) with the United States, and established itself as a sovereign nation. Under this fifty-year political and economic treaty, the US committed US\$630 million over the first fifteen years (1994–2009), in exchange for exclusive access to Palau’s waterways, with regards to all defense and security matters.



Source: Palau Visitors Authority

Compact Review	
Government (Administration, Education & Health)	<ul style="list-style-type: none"> Annual funding to maintain a minimum level of public service (and employment) while the small, market economy expands. Funding provisions to cease in 2009.
Infrastructure	<ul style="list-style-type: none"> Build basic infrastructure (roads, energy, transport & communication facilities)⁶. Develop an independently-functioning and eventually self-supporting economy.
Compact Trust Fund	<ul style="list-style-type: none"> Accumulate cash reserve in the first 15 years of the Compact (1994 to 2009). Generate interest income to replace the annual budgetary aid, for the remaining years of the Compact.⁷
Additional Provisions	<ul style="list-style-type: none"> Continuation of certain US federal programs. Privileged right of Palauan citizens to live, study, and work in the US without visa. Preferential trade access to the US.

⁴ Kayangel, Ngarchelong, Ngaraard, Ngardmau, Ngeremlengui, Ngiwal, Melekeok, Ngchesar, Aimeliik, Ngatpang, Airai, Koror, Peleliu, Angaur, Sonsorol, and Hatothobei.

⁵ Pacific Islands Trade and Investment Commission and the Asian Development Bank. (2001).

⁶ This includes funding for the \$149 million, 53-mile Babeldaob Road.

⁷ Decreased from \$148 million (2001) to \$124.5 million in 2002, the trust fund is now \$136 million (December 2003).

INTRODUCTION

On 2009, the funding provisions of Palau’s Compact, specifically annual funding assistance, infrastructure funds, and trust fund payments, will end. However, other provisions, including security, strategic access, and trade provisions will continue until 2023.

As a sovereign nation, Palau manages its domestic and foreign affairs. Since independence and admittance to the United Nations in 1994, Palau has established diplomatic relations with many countries including Japan, Australia, Taiwan, the Republic of the Philippines, and Korea. Palau is a member of several international organizations and signatory to a number of international agreements and treaties.

ECONOMY

<i>Key Economic Statistics</i>			
Population - July 2004 est.	20,016	Gross Domestic Product (\$M) – 2002/2003	\$123.9
Total Labor Force - 2000	9,607	% Government Revenues	29%
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Sources: Office of Planning and Statistics, CIA 2004 Fact Book, BOH Economic Report on the Republic of Palau 2003, International Monetary Fund Staff Report March 2004

Palau faces challenges that are common to remote islands economies; small market, distance from large markets, and limited resources. With a population of 20,000, Palau has a population growth rate of 1.5%, a slight decline from 2002's growth rate of 2%.⁸ The median age in Palau is 31.1 years, up from 30.8 in 2000.⁹ Sixty of the population between the ages of 20 to 60¹⁰ coupled with a 2% unemployment rate suggests a nearly stretched labor market.

Largely service oriented, Palau's economy is supported mostly by public administration, trade, tourism and related services, and construction. Palau's GDP, approximately \$123.9 million in FY2003, grew by 2 percent. Per capita income dropped to \$5,482, compared to \$6,187 in 2001, but continues to be substantially higher in comparison to its neighboring freely-associated states.

Palau's economy is dependent on foreign funding assistance, and to a lesser degree its developing tourism industry. Public sector services, 80% of which are funded by the Compact, accounted for 29.1% of GDP in 2002, up from 25% in 2001. Palau's government, employing 28.6% of the labor force, has the highest wage cost (estimated at \$30 million annually) in the region.¹¹ According to a recent International Monetary Fund (IMF) report, the current level of Palau's government expenditure, coupled with current annual withdrawals of \$5 million from the country's Compact Trust Fund before 2009¹², will likely result in the Fund being exhausted twenty years prior to the treaty's termination.¹³ The immediate concern confronting Palau, in the next four years before Compact funds cease, is to expand and diversify its economy, thereby reducing its reliance on foreign assistance.

Tourism continues to be Palau's main income source. With its diverse marine life and near-pristine environment, Palau is a world-renowned scuba-diving and snorkeling destination. Tourist spending reached \$66.1 million in 2002, up from \$61.1 million in 2001. Tourist

⁸ Calculations are based on 10-year averages.

⁹ Source: Office of Planning and Statistics, Republic of Palau & US Central Intelligence Agency (2004).

¹⁰ Increase from 54% in 1990.

¹¹ International Monetary Fund. (2004).

¹² Estimating continued draws of \$5 million up to 2009; annual draws of \$15 million (2010 to 2043); and, assuming 6% annual return.

¹³ International Monetary Fund. (2004).

ECONOMY

arrivals – 80% of whom come from Japan, Taiwan, and the U.S. – exceeded 63,000 in 2003, a 56% increase in the last ten years. Palau’s tourism industry has proved somewhat resilient compared to its neighbor islands with an average growth rate of 8% in the last two years, after the September 11 attacks, SARS epidemic, the Iraq War, and the ongoing US War on Terror.

Due to numerous factors including falling world fish prices, the formerly lucrative fishing industry has been declining. Contributing an annual average of \$28 million to the country’s GDP¹⁴, Palau’s commercial fishing industry, which comprises domestic and international fishing companies, contributed \$3.4 million to the economy in 2001. The industry further declined 79% in 2002. Despite this decline, the fishing industry, the country’s major export industry, will continue to play a role in Palau’s economic growth. Location, rich fishing grounds, and transportation ease to Asian markets are Palau’s advantages and further development of the fishing industry is likely.

Construction, both public infrastructure and private sector projects, sustained the economy in 2002, contributing 12% of GDP in 2002, compared to 7.6% in the previous year. It is expected that major public and private sector projects currently underway or forthcoming will sustain construction activity growth over the next five years. These include the US-funded Babeldaob road, National Capital Relocation Phase II, Palau Aimeliik Golf Course, and Malakal Marine Resort.¹⁵

Palau’s two main exports are fish and manufactured garments. The value of Palau’s garment industry reached \$33.6 million in 2002 - nearly 300% growth.¹⁶ The closing of the country’s remaining garment manufacturer¹⁷ in early 2003 ended this budding export industry. Preferential trade access to the US remains a competitive advantage for garment companies interested in establishing manufacturing operations in Palau.

As a result of the declining fish and garment industries, the value of Palau’s exports dropped 41% in 2003 to \$11.9 million. In the same period, imports (including mineral fuels, machinery, food products, and manufactured goods) reached \$93.7 million, down from \$95.7 million in 2002.¹⁸ Palau’s major trading partners are the US and Japan.

Palau’s government has operated with a fiscal deficit for the past five years. In FY2003, the government’s expenditures of \$72.6 million exceeded its estimated revenues of \$65.4 million, resulting in a budget deficit of \$7.2 million. A recent IMF report projects the government budget deficit to increase to \$12.6 million in FY2004.¹⁹

¹⁴ From 1993 to 1997

¹⁵ Osman, W. (2003).

¹⁶ Source: Customs Division, Ministry of Finance, Republic of Palau

¹⁷ Due to undisclosed reasons.

¹⁸ International Monetary Fund. (2004).

¹⁹ International Monetary Fund. (2004).

Government Initiatives

The government of Palau has established a number of programs to foster economic development: reforming the investment climate and financial sector; and, creating conditions conducive to private sector development and economic diversification. Although the government recognizes and encourages foreign investment, the country seeks foreign investments that do not compromise the country's unique natural and cultural resources. The following initiatives aim to attract foreign investments and encourage diversification of the economy:

- *Foreign Investment Reform.* The government of Palau is determined, with two proposed foreign investment reform measures pending in the country's legislature²⁰, to create a transparent investment environment, which streamlines foreign investment regulations and encourages the flow of foreign investments into the private sector.
- *Financial Reform.* With a recently established regulatory and supervisory framework to monitor and regulate financial institutions, Palau enjoys a low risk financial environment. Palau's banking sector is profitable.
- *Tax Incentives for Agri-Business Development.* To expand the country's agricultural base and attract private sector investments in agri-businesses, the government recently passed into law a proposal establishing tax incentives for investments in agriculture production.
- *Regional Integration.* The government is engaging in continued economic cooperation within the Pacific region. As a member of regional trade agreements, such as the Pacific Island Countries Trade Agreement (PICTA), Palau has opened its doors to preferred access to goods with its the regional trade partners including the Federated States of Micronesia, Australia, the Republic of the Marshall Islands, and New Zealand.
- *Ngardmau Free Trade Zone.* Established in 2001 under the Ngardmau Free Trade Zone Act, this free trade zone is a vehicle through which the country intends to diversify its economy, and establish and encourage new industries and commercial activities. Targeted businesses include 'light' manufacturing (such as computer hardware and electronic component parts) and financial and trade-related services. For more details on the Ngardmau Free Trade Zone, see the section on "**Light Manufacturing**" (page 20), under "**Growth Opportunities**".

²⁰ At the time of this report.

POSITIVE DEVELOPMENTS

Airline Access

Palau Micronesia Air, a newly established airline company launching regular service in 2004, increases airline access and traffic to Palau. In particular, Palau's tourism industry will most certainly benefit from the increase in regularly scheduled airline service from the Philippines, Australia, the US (via Guam), and Japan.

Babeldaob Road

The completion of the US-funded 53-mile Babeldaob road in 2005-2006 opens doors to expanded economic development on the largest island in Palau. The road facilitates direct access to the lesser developed states on Babeldaob, with fertile agricultural land, historical and cultural sites, vast wilderness, and prime real estate for resort development.

Foreign Investment

The Foreign Investment Act of 1990 regulates all foreign investments in Palau. Those interested in undertaking direct investments in Palau are required, under this Act, to apply for and obtain a Foreign Investment Approval Certificate (FIAC) through the Foreign Investment Board (FIB).

A review of Palau's foreign investment climate by the International Finance Corporation and the World Bank²¹ pointed out the following recommendations:

- Replace current regulatory approach with a registration process, and monitoring system, to maximize the quality and quantity of foreign investments to Palau.
- Limit restrictions and conditions of business activities to sectors where reasonable competition will exist, and joint-venture requirements.
- Modify labor permits procedures for foreign workers.

At the time of this report, two proposed bills to make structural and procedural changes, in-line with the World Bank and International Finance Corporation (IFC) recommendations, to the current foreign investment regulation policies were introduced by the legislature.

Foreign Investment Regulation²²

The Foreign Investment Act of 1990 proposes to:

- Promote foreign investment that benefits Palau
- Protect businesses within the capabilities of its citizens
- Promote employment for Palauans
- Control investments in Palau

This Act established the Foreign Investment Board (FIB), a seven-member board appointed by the President responsible for the screening, approving, and monitoring of foreign investment in Palau. Under this Act, certain business activities are reserved for citizens and business enterprises in which citizens have ownership interest.

Any proposed business activity either must involve a foreign investment of more than US\$500,000 or the workforce of the business must be at least 20 percent Palauan.

Foreign investors also are required to pay an annual fee of US\$500 for every foreign worker employed by their company. In addition, entry and work permits for any foreign worker must be obtained from the Division of Immigration and the Division of Labor.

²¹ International Monetary Fund. (2004).

²² Source: Foreign Investment Board

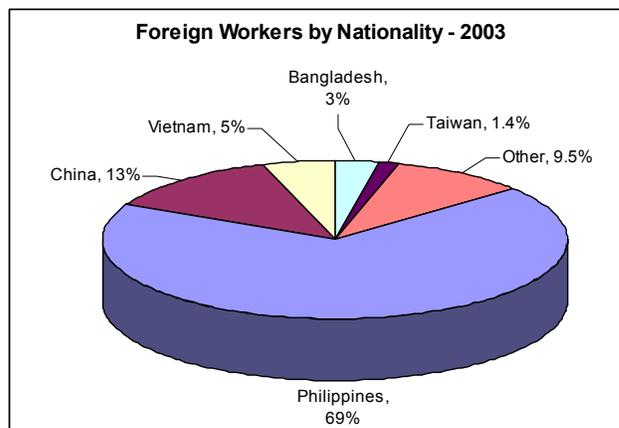
INVESTMENT CLIMATE

Land

Under Palau’s constitution, land cannot be owned by any non-Palauan citizens; moreover, only corporations wholly-owned by Palauan citizens may acquire title to land or waters in Palau. However, foreigners may lease land, either from the government or private landowners, for up to fifty years.

Labor Regulations

With over 60% of its population between the ages of 20 and 60 and an unemployment rate of 2.3%, Palau’s labor market will not be able to support rising labor demands employment needs from increased development activities. Labor supply is a key concern for Palau’s economic development. Foreign workers are critical to Palau’s developing economy. Approximately 64% of the labor force are foreign workers, the majority of which are Philippine nationals.



Source: Office of Planning & Statistics, Republic of Palau

Under Palau’s foreign investment regulation, foreign companies are required to pay a fee, US\$500 per year, for each foreign worker employed by the company. Moreover, foreign workers require entry and work permits from the government’s immigration and labor divisions.

COMPETITIVE ADVANTAGES

Palau’s comparative advantages relative to the Federated States of Micronesia, Republic of the Marshall Islands and US territories in the Pacific for foreign investment are detailed below.

Competitive Advantages	
Location	<ul style="list-style-type: none"> • Proximity to Asia
Governance	<ul style="list-style-type: none"> • Politically stable • Strong ties to the US • Duty-free access to US
Tax System	<ul style="list-style-type: none"> • Low tax structure • No corporate tax • Tax incentives
Infrastructure	<ul style="list-style-type: none"> • Well-established infrastructure
Natural Resources	<ul style="list-style-type: none"> • Abundant tuna fishery • Rich biodiversity (marine and terrestrial flora and fauna) • Pristine marine ecosystems and environment • Rock Islands (unique and beautiful limestone islands)
Culture	<ul style="list-style-type: none"> • Rich cultural heritage (historical and cultural sites) • Ethnic cuisine

Location

Palau is the western most archipelago in the Caroline Island chain, and thus is well-located in close proximity to major Asian markets of Japan, China, Taiwan, and other Southeast Asian countries. Famous for its marine splendors and unique culture, Palau is an attractive travel destination for outbound tourists from nearby Japan, Taiwan and Korea. Location is also vital in developing the country’s other marine-related industries (tuna fishery and marine aquaculture) targeting the seafood markets in Asia.

Governance

Palau is a politically stable sovereign nation, with special ties to the United States. Under the Compact of Free Association with the US, the security and defense of Palau and its borders are under US control. In addition, Palau’s products are granted duty free entry into U.S. markets. This presents an attractive opportunity for foreign businesses seeking to leverage Palau’s newly established free-trade zone, deep-sea port, and transshipment location advantages and avail of substantial tariff savings in light manufacturing and garment operations.

COMPETITIVE ADVANTAGES

Tax Structure

Palau's low tax structure is a major incentive for foreign investors. There is no corporate tax levied in Palau. Generally, there are three types of taxes: revenue tax (4%), wage and salary tax (6% on first \$8,000 and 12% above), and import duties (rates depend on the type of goods). In addition, Palau grants temporary income tax exemptions to business activities that will further economic development.²³

Additionally, a foreign investor constructing a facility may be entitled to refund of taxes for costs incurred in developing off-site roads, water, power and sewer access or improvement to service their facility. The amount of refund in any single tax year will not exceed 50% of the amount paid in that tax year by the foreign investor.

Infrastructure

The government of Palau has been developing and improving its infrastructure to support growth and diversification of its economy. As a service-based economy, Palau maintains a system of business infrastructure and encourages commerce by providing valuable services and convenience to industries and other primary businesses.

Transportation. Domestic and international merchant vessels and fishing fleets, as well as international cruise lines are serviced on a regular basis at the country's commercial port facility, Malakal Commercial Port. Three international shipping companies service Palau: Kyowa (Bali Hai) Line, Kambara Line, and Matson Line (through Guam). Global freight forwarding is available through Federal Express (FedEx) and DHL International, Inc. (DHL), who have established offices in Koror.

The newly renovated Palau International Airport serves five international airline companies connecting Palau to major cities in Japan, Korea, Taiwan, the Philippines, Yap State (FSM) and the US (via Guam). Palau Micronesia Air (PMA), a new Palauan-based airline company, has begun regular limited airline service, increasing access to the Philippines, the FSM (Yap, Chuuk, and Pohnpei), and Darwin (Australia), and eventually Japan and Guam. Increased airline access will expand tourism and export opportunities in Palau.

Palau has a well-connected road system from Koror to outlying villages throughout Babeldaob. In 2005-2006, the US-funded Babeldaob Road expansion will be completed, connecting Koror to the other states in Babeldaob, fostering an expansion of commercial activities in the underdeveloped areas in Babeldaob.

Telecommunication. Telecommunications is critical to trade and economic development and Palau has one of most well-developed telecommunications sectors in the region. [Palau National Communications Corporation](#) (PNCC) manages the country's telecommunications services, as well as cable and mobile telephone services. PNCC has state-of-the-art facilities

²³ Negotiated on a case-by-case basis.
Republic of Palau

COMPETITIVE ADVANTAGES

with robust telecommunications infrastructure. Communication access to the rest of the world is facilitated through a fiber-optic system, direct dial capabilities, cellular networks, broadband connections (ISDN and ADSL technologies) and other facilities. In addition to PNCC, SmartCall Telecom, Inc., a newly-established privately-owned long-distance carrier, provides international telecommunications service.

Banking and Financial Services. Palau’s financial system consists of 12 commercial banks, including 3 branches of U.S.-based banks, one development bank (the National Development Bank of Palau), 11 non-bank financial institutions and a number of small credit unions. The three U.S. branches are insured by the FDIC and follow U.S. prudential regulations. According to a recent IMF report, the country’s banking sector is profitable.²⁴

Natural Resources

Blessed with one of the most diverse marine ecosystems, Palau’s natural resources are the foundation for its growing tourism industry. Palau has one of the most extensive and diverse reef systems and one of the richest tuna fisheries. Palau’s famous *Rock Islands* are one of the world’s unique marine ecosystems. The country’s active preservation efforts will ensure these islands remain invaluable aesthetic resources and tourist attractions for years to come. In addition, because of the minimal destructive fishing practices and fairly low levels of development and pollution, Palau’s coral reefs are kept pristine and thus, provide a unique opportunity for reef studies. Through a special cooperation between the US and Japan, a modern marine research facility, the [Palau International Coral Research Center](#), has been established and currently conducts various coral reef and marine diversity studies.



Culture

Claiming a rich cultural history dating back to 1000 BC,²⁵ Palauans enjoy a fascinating heritage with customary practices, including *omesurch* (a first-child ceremony) and *kemeldiil* (funeral ceremony) still in practice today. Historical remnants with ancient legends and impressive natural sites are scattered throughout the islands. Palau’s rich cultural heritage, together with pristine natural sites, native arts and crafts, and ethnic cuisine make it a viable niche tourism (cultural, historical, nature and adventure tourism) destination.

²⁴ International Monetary Fund. (2004).

²⁵ Source: Palau Visitors Authority

GROWTH OPPORTUNITIES

Palau’s economic development initiatives aim to diversify the local economy. This report identifies growth opportunities for development, in-line with the economic development initiatives of the government. These growth opportunities are categorized into the three main sectors and are listed below. Specific business opportunities, where applicable, are presented in each main growth sector.

Aquaculture	<ul style="list-style-type: none"> • Seafood Trade • Aquarium Trade
Tourism	<ul style="list-style-type: none"> • Hotel & Resort Development • Timeshare Marketing/Sales
Light Manufacturing	<ul style="list-style-type: none"> • Ngardmau Free Trade Zone Facility

Aquaculture

Aquaculture is a growing food-producing sector in Palau’s economy, providing for the domestic market and increasingly contributing to the nation’s trade balance. The country’s *marine* aquaculture production has increased dramatically in recent years, and offers promising growth opportunities. The high quality of Palau’s coastal water, its temperature and vast reef systems create ideal conditions for marine aquaculture.

Aquarium Trade	
Aquarium Plant/Animal Sales	US\$900 million
Marine Aquarium Trade	US\$200-\$500 million
Marine Aquaria Enthusiasts	
• World	1.5 million
• US	1 million

Source: UNEP, UH-CTAR

Seafood Trade	
World Seafood Trade	\$100 billion
Major Import Markets (per capital consumption)	<ul style="list-style-type: none"> • Japan - 88 lbs. • EU - 37 lbs. • China - 16 lbs. • US - 15 lbs.

Source: Aquaculture Production Technology

Palau’s principal marine aquaculture product is giant clams. These cultured giant clams are in high demand in the marine aquarium industry. The US is the largest consumer of marine aquaria, importing approximately 90% of all live marine aquarium products, followed by the European Union and Japan. Major suppliers of this trade are South-east Asian and Pacific Island countries.

The world seafood trade is a fast growing industry, with seafood consumption anticipated to outpace commercial fishery harvests. Seafood importers and distributors are constantly seeking reliable sources of supply and new products to meet the escalating demand. Aquaculture supplies 23% of

the world’s fishery production. Of the 28 million tons of seafood farmed worldwide per year, cultured mollusks²⁶ comprise 17%.²⁷ Cultured giant clams are highly valued in the

²⁶ Oysters, Scallops, Mussels and Clams.

²⁷ Aquaculture Production Technology. (2000).

GROWTH OPPORTUNITIES

Asia-Pacific seafood industry. There is great potential for cultured giant clams to supply niche and specialty markets in Asia, particularly Japan and China. Considering the size and consumption demand from these markets, regional cooperation among giant clam cultivators in the freely-associated states (the Republic of the Marshall Islands and the Federated States of Micronesia) is necessary to meet the demand from the Asian seafood market.

The Palau Mariculture Demonstration Center (PMDC), a government-owned facility, is one of the world’s largest producers of giant clams, supplying more than 50,000 giant clams a year to buyers worldwide. At present, approximately 700,000 giant clam ‘seedlings’, have been supplied by PMDC to private, individual farmers to grow-out and sell in the aquarium trade and local consumption market. Belau Aquaculture, Inc., a private company, purchases giant clams from these private giant clam farms as well as PMDC for shipment to aquarium buyers in the US. Both the PMDC and Belau Aquaculture culture soft corals for the aquarium trade as well. Palau’s marine aquaculture export market has estimated sales of over \$300,000²⁸ a year. Product research and development projects are ongoing with other marine and fresh-water species including trochus, grouper, and shrimp.

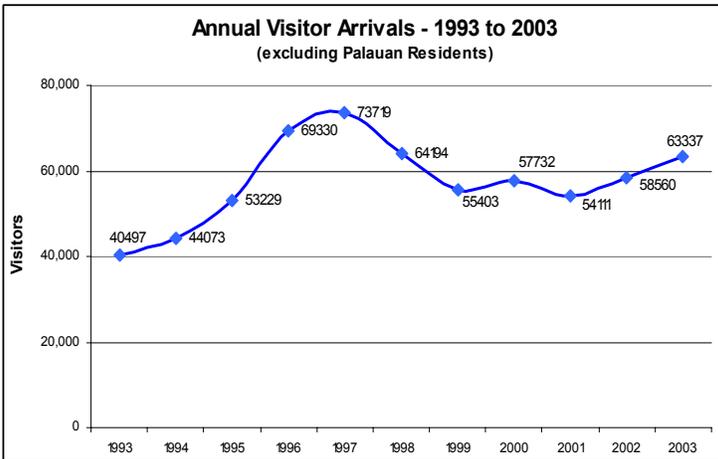
Company/Agency	Business Opportunity	
Palau Mariculture Demonstration Center (PMDC)	Partnership in seafood trade for fresh or frozen giant clam meat. Additionally, seeking partnerships in the aquarium market trade for cultured giant clam and soft coral. The agency has an estimated annual giant clam production capacity of about 500,000 clams per year.	<ul style="list-style-type: none"> • Aquarium Trade Buyers • Seafood Buyers or Importers
Belau Aquaculture, Inc.	Partnerships in aquarium market trade for cultured giant clam and soft coral. A privately-owned local company with gross receipts of \$40,000 ²⁹ per month, the company has the capacity to double its exports.	<ul style="list-style-type: none"> • Aquarium Trade Buyers

²⁸ Source: Palau Mariculture Demonstration Center

²⁹ Holyoak, L. (2001).

Tourism

The tourism sector is one the most lucrative foreign investments in Palau. Palau’s natural beauty and diverse marine life makes it one of the most popular scuba diving destinations in the world, attracting thousands of US and Japanese divers each year. With the current movement toward revitalization in major Asian markets, and to some extent, the US market, Palau’s tourism is experiencing a rebound from its downturn in recent years.



Source: Palau Visitors Authority

The majority of visitors to Palau come from Japan, Taiwan, the United States/Canada, Guam, and the Philippines. In 2003, the Taiwanese visitors surpassed the number of Japanese visiting Palau, making up 44% of the market compared to Japan’s 34%. According to the World Tourism Organization news release in January 2003, Asia and the Pacific were regarded as “destinations of the future.”³⁰

The release continued to further state that in 2002, Asia and the

Pacific surpassed the Americas as the number two regional destination in the world, with Europe being the first.

Approximately six airline companies provide regular and charter air service between Palau and Japan, Korea, Taiwan, the Philippines, Australia (via Darwin), the Federated States of Micronesia (Yap, Chuuk and Pohnpei), and the US (via Guam). These airline companies, Asiana Airlines, Continental Airlines, Far Eastern Air Transport, Japan Airlines, Mandarin Airlines, and the newly launched Palau Micronesia Air, provide easy and reliable airline access from major Asian markets, the US, the European Union, and Australia. Palau has a current inventory of 1,050 rooms and averages between 4,000-5,000 visitor arrivals per month.³¹ Proposed hotel development projects underway will increase room inventory by over 70% in the next two to five years.

To improve and expand the tourism industry (increase in visitor numbers and spending), diversification of the tourism base and tourism products is essential. A new botanical garden project launching in the next couple of years is one of many government-led initiatives to create new, unique tourist activities and diversify the tourism base. Recently completed facilities including the new Belau National Museum, the Ngara Amayong Cultural Center, the [Palau Aquarium](#) and other private facilities such as the [Dolphins Pacific](#) offer unique

³⁰ World Tourism Organization. (2003).

³¹ Total visitor arrivals of 63,333 in 2003.

GROWTH OPPORTUNITIES

tourist activities. These new tourism products and Palau’s modern business services make Palau a viable destination for *corporate meetings and conventions*. With its exquisite natural environment and extensive marine as well as land-based activities, Palau is an ideal cruise destination for specialty cruise line companies searching for new destinations ports with unique itineraries.

Almost all tourism infrastructure is concentrated on Koror, the center for all tourist activities which are mainly marine-oriented. The new Babeldaob road will open opportunities for expanded tourism development, thus diversifying the tourism base. Transportation ease to the largest landmass in Palau will launch development opportunities for tourism resorts and other tourism-related businesses in prime real estate properties.

While the primary tourism business opportunities include resort and hotel investments and cruise line partnerships, *ecotourism*³² development distinguishes Palau as a true niche destination.³³ Tourism officials have determined ecotourism development as the ideal tourism product that achieves the country’s sustainable economic development objectives. The completed Babeldaob road renders easy-access to unspoiled wilderness and extraordinary cultural and natural sites throughout Babeldaob. Consequently, opening up opportunities for development of nature and cultural-focused tourism products and activities, including eco-resort accommodations, culture-based attractions, and adventure tours to target niche and specialty tourism markets in the US, the European Union, and throughout Asia.

Specific private investment and business opportunities exist in ecotourism resort development, timeshare sales and marketing, convention and meetings venues, ecotourism business opportunities (scuba-diving, sportfishing, adventure/nature and cultural tour packages).

Company/ Agency	Business Opportunity	
Palau Golf, Inc.	Partnership in marketing timeshares (for 100 villas) in a new 18-hole golf course resort.	<ul style="list-style-type: none"> • Timeshare Marketing • Timeshare Buyers
Meuns Villa ,Inc.	Development of a 4.5 acre property in Koror for high-end housing compound to meet the needs of a growing short-term lease market. Possible option for the development of up-scale timeshare villas.	<ul style="list-style-type: none"> • Investment • Development • Management
Palau Chamber of Commerce	Development of ecotourism resorts (two independent projects) in prime real estate properties located on Koror, Palau’s commercial and administrative center.	<ul style="list-style-type: none"> • Investment • Development • Management

³² Defined by The International Ecotourism Society (TIES) as "responsible travel to natural areas that conserves the environment and improves the well-being of local people."

³³ Ecotourism, cultural/historical tourism, and adventure/nature tourism.

GROWTH OPPORTUNITIES

Pacific Business Center Program	<p>Development of ecotourism resorts (two independent projects) in prime real estate properties (25 acres) located on Babeldaob and Kayangel.</p>	<ul style="list-style-type: none"> • Investment • Development • Management
Palau Visitors Authority	<p>Develop Palau as a cruise line specialty port destination, in combination with neighboring Micronesian islands. With new attractions, including a cultural center, national museum, dolphin experience, aquarium, rich natural resources and numerous historical and cultural sites, Palau can become a marquee port.</p>	<ul style="list-style-type: none"> • Partnership (Cruise line)

GROWTH OPPORTUNITIES

Light Manufacturing

As part of its drive to diversify the economy away from tourism, the government established the Ngardmau Free Trade Zone Act. The Ngardmau Free Trade Zone (NTFZ) opens opportunities for the establishment of export-oriented businesses to locate their operations in Palau. With the following advantages, Palau has the potential to establish a successful free trade zone; economic health, political stability, strong trade agreements, attractive tax system and incentives, government support and investment, and airport infrastructure. Under the Act, licensed industries benefit from the following incentives:

- Import tax exemption on equipment and raw materials
- Export tax or user fees exemption (up to 10 years)



Source: Pacific Islands Trade and Investment Commission and Asian Development Bank

In addition, investors and developers in Palau’s free trade zone can benefit from the country’s preferential trading arrangements under the following treaties and trade agreements:

Compact of Free Association	Investors in manufacturing can also benefit from duty-free access to the US market under the Compact of Free Association.
Pacific Island Commerce and Trade Agreement (PICTA)	PICTA agreement grants duty-free entry (no import taxes and other trade barriers) of goods from Palau to other Pacific Island member countries.
Pacific Agreement on Closer Economic Relations (PACER)	Under PACER, Palau and other smaller member countries negotiate free trade arrangements with the larger developed countries of Australia and New Zealand.

Potential export-oriented ventures under Ngardmau Free Trade Zone include the assembly of specialized electronic equipment and components parts for re-shipment to the US, Asian markets, Australia, and the greater Pacific region. With added airline connections and regular shipping lines, such a venture may be profitable. There is an opportunity for joint-venture projects with local entrepreneurs in the computer services industry to take advantage of the growing market opportunity.

GROWTH OPPORTUNITIES

The newly appointed Ngardmau Free Trade Zone Authority, the free trade zone’s administrative agency, is seeking investors and partners for the development of an appropriate free trade zone facility, within the free trade zone’s 14,130 square kilometer area.

Company/ Agency	Business Opportunity	
Ngardmau Free Trade Zone Commission	Investment and development of a free trade zone facility in newly established free trade zone in Palau. Partnerships with investors and developers seeking cost-effective location for light manufacturing operations to capture market opportunities in the Asia Pacific – in Palau.	<ul style="list-style-type: none"> • Investment • Development

OPPORTUNITIES FOR FURTHER DEVELOPMENT

Agriculture	Partnership Need
<p>Root Crops. Develop and expand current exports of root crops and other agriculture products to Guam and the CNMI. Taro, sweet potato, and tapioca - current oversupply in the local market.</p>	<ul style="list-style-type: none"> ▪ Investment ▪ Development ▪ Retail buyers -regional (CNMI/Guam)
<p>Value-Added Products. Expansion of small-scale agri-businesses currently producing a selection value-added agriculture products selling to the local market, largely for tourist consumption. These products include <i>noni</i> tea, and coconut candy. There is an opportunity for partnerships to export these specialty food items to the US market, a major import market for organic, gourmet, processed specialty foods world-wide.</p>	<ul style="list-style-type: none"> ▪ Specialty food importers, distributors & retailers
<p>Tropical Flowers. Partnership in establishing a commercial operation to cultivate native and other exotic tropical flowers for export to major Asian markets - such as Japan, Taiwan and China.</p>	<ul style="list-style-type: none"> ▪ Investment ▪ Development
Tourism	Partnership Need
<p>Tour Packages. Partners in selling scuba diving and sportfishing tour packages in the US market.</p>	<ul style="list-style-type: none"> ▪ Travel/Tour Wholesalers ▪ Travel/Tour Distributors
<p>US-Chain Hotels. Investment and development of US-chain hotel properties in Palau. Partnership with US-chain hotels to manage and operate (management contract) hotel properties in Palau.</p>	<ul style="list-style-type: none"> ▪ Investment ▪ Development ▪ Management Contract
Fishery	Partnership Need
<p>Small-Scale Fish Processing Plant. Develop a small-scale processing facility to salt, dry, smoke, and package fish products – from oversupply of fishing catches not consumed by the local market.</p>	<ul style="list-style-type: none"> ▪ Investment ▪ Development
Trade	Partnership Need
<p>Quarry Equipment Supplier. Construction company interested in finding US quarry equipment suppliers.</p>	<ul style="list-style-type: none"> ▪ Investment ▪ Development
<p>Wholesale/Distributor. General merchandise and grocery wholesaler/retailer interested in distributors of US goods.</p>	<ul style="list-style-type: none"> ▪ Investment ▪ Development

OPPORTUNITIES FOR FURTHER DEVELOPMENT

Maritime	Partnership Need
<p>Ship Registry. Development of a ship registry (registration of offshore ships) operation in Palau. Palau can capitalize on its sovereignty, US-affiliation, and proximity to Asia, Australia and New Zealand, by partnering with established US maritime registration companies to develop a ship registry operation based in Palau.</p>	<ul style="list-style-type: none"> • Investment • Development
Recycling	Partnership Need
<p>Paper Recycling Plant. Opportunity to develop a paper recycling plant facility that will convert the otherwise waste paper to viable products for sale in the local market, tourist market, and potentially export to regional island markets. Waste paper from commerce and government activities combined provides sufficient feedstock for an appropriately structured waste paper recycling and production operation.</p>	<ul style="list-style-type: none"> • Investment • Development
<p>Electronic Equipment Recycling. Partnership in establishing a company to collect, buy, sell or ship used-electronic equipment to companies in the Philippines, in Asia, or the US.</p>	<ul style="list-style-type: none"> • Investment • Development
Education	Partnership Need
<p>Marine Research Programs. Establish marine research and similar field study programs in partnership with Palau Community College³⁴ and the Palau International Coral Reef Center, a state-of-the-art scientific research facility.</p>	<ul style="list-style-type: none"> • Education Institutions

³⁴ Accredited by the Western Association of Schools and Colleges, one of the six regional accrediting associations in the US.

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